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C O N F I D E N T I A L SECTION 01 OF 02 KATHMANDU 001358

SIPDIS

DEPT FOR SA/INS, SA/RA
LONDON FOR POL/GURNEY, NSC FOR MILLARD

E.O. 12958: DECL: 07/18/2013

TAGS: [PGOV](#) [PREL](#) [ECON](#) [PTER](#) [NP](#)

SUBJECT: NEPAL: AMBASSADOR'S MEETING WITH PRIME MINISTER THAPA

REF: KATHMANDU 1138

Classified By: Ambassador Michael E. Malinowski for Reasons 1.5 (b,d).

¶1. (C) Summary. In a meeting with Prime Minister Surya Bahadur Thapa on July 16, the Ambassador, accompanied by the ambassadors of the UK, India, Germany and France and leaders of their respective bilateral chambers of commerce, discussed their intention to issue a joint statement condemning growing extortion demands by Maoists. The Prime Minister expressed gratitude for the ambassadors' active involvement and welcomed issuance of the joint statement. He said he was aware of escalating Maoist extortion, had voiced this concern to the Maoists during informal talks, but had to balance his government's commitment to law enforcement with its interests in maintaining a peace dialogue. Thapa also offered reassurance to international companies in Nepal and pledged to protect their interests. The draft joint statement has been approved by the chambers and ambassadors, except the Indians, who wish to obtain New Delhi's approval before joining the collective effort. End Summary.

¶2. (C) On July 16 Ambassador Malinowski called on Prime Minister Surya Bahadur Thapa with other members of the "Industrial Security Group," a collective comprised of the ambassadors of the US, UK, India, Germany and France and their respective bilateral chambers of commerce. Chaired by the British ambassador, the group was created several years ago to share information and work collectively on the threat that the Maoist insurgency posed to international businesses in Nepal. The meeting was requested by the ISG to raise with the Prime Minister the Group's proposed release of a joint statement condemning the recent drastic increase in extortion by the Maoists against foreign and foreign-connected businesses. Our Embassy originally had raised the initiative with the ISG and provided the draft joint statement.

¶3. (C) British Ambassador Bloomfield opened the meeting with a quick overview of the activities and goals of the Industrial Security Group. He proceeded to voice serious concern over the impact that the insurgency continued to have on businesses despite the cease-fire, and expressed the Group's desire to be helpful. Ambassador Bloomfield stressed that the Maoists were breaking systematically the "code of conduct" agreed to by both sides as the basis of the current cease-fire. He reiterated Britain's support for the peace process and cease-fire, but expressed concern over the "dramatic rise" in Maoist extactions. Ambassador Malinowski added that the extortion activities by the Maoists hurt the very "fabric of life" in Nepal, affecting not only the businesses and the economy, but also humanitarian and development groups, schools, NGOs and everyday people.

¶4. (C) German Ambassador Rudiger Lemp expressed concern that international businessmen these days are wary of investing in Nepal because of continued violence throughout the country. He warned the Prime Minister that "capital is mobile," businesses are risk-adverse and, therefore, foreign businesses operating in Nepal may decide to leave the country.

¶5. (C) French Ambassador Claude Ambrosini added that, although there were relatively few French joint business ventures in Nepal, he supported the joint statement fully.

¶6. (C) Indian Ambassador Shyan Saran agreed in full with these statements and pledged the Indian government's support for GON efforts to end extortion. He said that India has many joint ventures in Nepal and a vested interest in seeing companies protected. Saran questioned the Prime Minister on what the diplomatic community should tell their businessmen to do when confronted by Maoists and what measures were being taken to protect them. In response, Prime Minister Thapa pledged to protect the companies, but no specific plan of action was discussed.

¶7. (C) Representatives of the chambers of commerce spoke bitterly about the "enormous and unrealistic amounts" of money that the Maoists were demanding from major businesses. Managers are threatened with beatings, kidnappings, and murders if they do not comply. In addition to extortion, the Maoists are now penetrating the labor unions and pressing

them to demand untenable pay increases as populist measures. Apart from the ethical dilemma that these demands pose, they are a serious drain on business morale and threaten to drive many companies out of business. Discussions of leading businessmen with Maoist leaders like Mahara indicate that the latter see the US and the Royal Nepal Army as their principal enemies. US interests, the chambers believe, may be under particular pressure. The Maoists have made it clear that if they decide to break off talks and go back to war, their violence will be even worse than before.

¶18. (C) The Ambassadors presented to the Prime Minister a draft of the ISG joint statement condemning Maoist extortion. The Ambassador stressed that joint action, rather than unilateral action, would be much more effective in pressuring the Maoists to stop extorting from foreign businesses.

¶19. (C) The Prime Minister thanked everyone for their concern. He said the GON was aware of the extortion attempts and had increased its vigilance. Extortion, he said, is a violation not only of Nepali law but also of the code of conduct and may challenge the viability of the state. When government negotiators had voiced their concern to the Maoists during informal talks, the Maoists have justified the collections as "donations." The Prime Minister asserted that the Maoists are in need of money to finance their return to warfare. While he emphasized several times the need to keep the code of conduct intact, the Prime Minister said the main goal of the GON was two-fold: to keep the peace process moving forward while preserving law and order. The Prime Minister disclosed that a high-level Maoist in Kathmandu, holding a large sum of money, had been arrested on extortion charges and would be prosecuted according to the law. He welcomed the idea of a joint statement and said it would have a positive impact. The Prime Minister reassured the group that the Government of Nepal was committed to protecting foreign business interests. He approved a suggestion from a chamber leader that a 24/7 command center be created in the Home Ministry to coordinate information on extortion attempts and oversee appropriate responses.

¶10. (C) Comment. The general consensus at the meeting was that Maoist extortion demands are showing no sign of abating despite the prohibition of such activity under the cease-fire code of conduct. Extortion demands are targeting companies, individuals and associations, and the amounts demanded have increased immensely. It is clear to this Embassy, and all the other members of the Industrial Security Group, that the GON leadership feels constrained in reacting decisively to combat this escalating criminal activity by its concern that it not provide the Maoists with an excuse for breaking off the peace talks. All the ambassadors in the ISG are prepared to endorse the joint statement against the extortion except for the Indian, who wants to obtain New Delhi's approval. Ambassador Saran has said he is hopeful that his government will agree to sign as well. Post expects a response from the Indians soon, but is prepared to issue the statement with other ISG members should the Indian government not approve. The Prime Minister obviously is grateful for the diplomatic community's firm public stand. End Comment.

MALINOWSKI